

CRS Issue Brief

U.S. and International Assistance to the Former Soviet Union

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U.S. and International Assistance to the Former Soviet Union

SUMMARY

Mikhail Gorbachev's efforts to introduce sweeping reforms in the late 1980s, the collapse of the Soviet Union at the end of 1991, and the difficult economic and political challenges faced by its successor states since then have continually raised the issue of providing Western humanitarian, economic, and other aid.

Since December 1990, when President Bush agreed to a Soviet request for urgent food and medical assistance, the U.S. Government has committed almost \$7 billion in U.S. grants for food, medical, and technical assistance to the Soviet Union and the republics of the former Soviet Union (FSU). Most of the grant assistance has been provided through the Agency for International Development. The United States has also subsidized guarantees for over \$10 billion in credits and insurance from the Export-Import Bank, Overseas Private Investment Corporation, and the Department of Agriculture.

In addition to U.S. assistance efforts, other major bilateral pledges of assistance have been made by West European countries, especially Germany, as well as by

Japan and Canada. In addition, multilateral organizations such as the European Bank for Reconstruction and Development (EBRD), the World Bank, and the International Monetary Fund (IMF) are expected to play the most significant role in providing financial assistance. Total U.S. and other donor commitments of assistance to the Soviet Union and the former Soviet Union since 1990 is over \$90 billion.

Whether, how much, under what conditions, and to whom in the successor entities of the Soviet Union assistance might be given, however, remain matters of ongoing debate within the executive branch, in Congress, and among other major providers of both bilateral and multilateral assistance. (See also CRS Issue Brief 92128, *Russian Economic Reform and the IMF: Mission Possible?*; CRS Issue Brief 91144, *Nuclear Weapons in the Former Soviet Union*; CRS Report 93-907, *The Former Soviet Union and U.S. Foreign Assistance in 1992: The Role of Congress*; and CRS Report 93-1057, *The Nunn-Lugar Cooperative Threat Reduction Program for Soviet Weapons Dismantlement: Background and Implementation.*)

MOST RECENT DEVELOPMENTS

- *The conference report on H.R. 4426, the FY1995 Foreign Operations, Export Financing, and Related Programs Appropriations Bill, was approved by the House on August 4 and by the Senate on August 10. It provides \$850 million for the former Soviet Union. In February, the Administration had requested \$900 million for the region.*

BACKGROUND AND ANALYSIS

Status of U.S Assistance to the Former Soviet Union

Aid to the Soviet Union: Developments Before 1992

Through most of the Cold War years, U.S. Administrations provided few direct economic aid grants, concessional loans, or other benefits to their chief rival, the Soviet Union. Indeed, normal trade was severely restricted by law. The United States did on a few occasions provide emergency disaster assistance, as in the case of the Chernobyl nuclear disaster and the Armenian earthquake; CCC export subsidies in 1964 and 1972-1973; and direct CCC credits in FY1973-FY1974.

Mikhail Gorbachev's rise to the Soviet leadership in 1985 and his subsequent efforts to introduce sweeping political and economic reforms brought U.S. support for closer bilateral economic relations. On Dec. 12, 1990, in response to a Soviet request for urgent food and medical assistance, President Bush announced the first major U.S. aid package that included provision of up to \$1 billion in Commodity Credit Corporation (CCC) credit guarantees for Soviet purchase of agricultural goods, authorization of up to \$300 million in Export-Import Bank credits for purchase of U.S. goods (the maximum allowed under the 1974 Stevenson-Byrd amendment to the Export-Import Bank Act without further congressional approval), an offer of technical assistance to improve food distribution and implement other economic reforms, and a pledge of \$5 million for a public-private medical assistance program to address Soviet shortages of medicine and medical supplies under the International Disaster Relief program. To extend CCC and Eximbank credits to Moscow, the President waived the Jackson-Vanik amendment (Subsection 402(c)(2)(A)) of the Trade Act of 1974).

On Feb. 6, 1991, the Administration announced that it would send medical aid directly to the Baltic states (Lithuania, Latvia, and Estonia) following the Soviet military crackdown and bloodshed there in January 1991. Under this program, the U.S. Agency for International Development (AID) paid for administrative and some transportation costs, and medicines and medical supplies were donated by private sources. The shipments were designed to demonstrate U.S. concern about the Baltic states and were part of a broader policy of increased official contacts with the individual Soviet republics. During 1991, donated pharmaceuticals and medical supplies valued at \$26 million were supplied to the Baltic states and republics of the Soviet Union.

On June 12, 1991, in response to a Soviet request, President Bush approved an additional \$1.5 billion in U.S. agricultural guarantees. The President's decision followed Soviet assurances that the grains would be fairly distributed among Soviet republics and the Baltic states. This offer did not require new congressional approval.

The aborted coup attempt in August 1991 renewed the issue of increasing U.S. and other Western aid. In the following months, as the Soviet Union sank deeper into disarray, a number of actions supporting further aid were taken:

Agricultural credit guarantees. During the attempted coup, President Bush put a brief hold on this program but resumed it when the coup failed. Remaining agricultural guarantees were made available at more favorable terms (100% of the principal and about 5.6% of the interest on private bank loans to finance these purchases was guaranteed). On Nov. 20, 1991, the Administration offered a further aid package, including \$1.25 billion in agricultural guarantees.

Humanitarian food and technical assistance. The Administration's Nov. 20, 1991 initiative also included \$165 million in food aid to be provided to particularly deficit regions, as well as technical assistance. On Dec. 9, 1991, AID notified Congress of its intent to reprogram \$5 million of appropriated FY1992 foreign assistance funds for technical assistance for the former Soviet Union (FSU).

Weapons dismantlement. In what became known as the Nunn-Lugar program, the Arms Export Control Act (P.L. 102-228, signed into law Dec. 12, 1991) contained a provision that allowed expenditure of up to \$500 million of Defense Department appropriations to assist the Soviet Union -- \$400 million for assistance with destruction of nuclear, chemical, and biological weapons and \$100 million for transport of humanitarian relief. The Dire Emergency Supplemental Appropriations Bill, H.J.Res. 157 (P.L. 102-229, signed into law Dec. 12, 1991), appropriated these funds.

On Dec. 12, 1991 (4 days after creation of the Commonwealth of Independent States), Secretary of State Baker outlined actions the U.S. Government would pursue to help safeguard or destroy Soviet weapons, establish democratic institutions, stabilize the economy, and overcome dire food and medical shortages. These included doubling the amount of medical assistance thus far provided; sending surplus Desert Storm food stocks to regions in particular need; augmenting ongoing USIA programs; and working with Congress to establish Peace Corps programs and a \$100 million technical assistance program. President Bush named then-Deputy Secretary of State Lawrence Eagleburger Coordinator for U.S. assistance efforts toward the FSU. To discuss the division of labor and responsibilities for assisting the region, he proposed hosting an international donors' conference in January 1992.

Aid to the Former Soviet Union: Developments in 1992

On Jan. 22, 1992, at the international donors conference, President Bush pledged, pending Congressional approval, \$645 million in additional assistance from FY1992 and FY1993 funds. One day later, Secretary Baker announced that the United States would shortly begin a major short-term airlift of emergency food and medical supplies. Operation Provide Hope I (there have been several more operations since), begun on Feb. 10, 1992, consisted of 65 flights by the U.S. Air Force that carried some \$28 million in Defense Department surplus food stocks as well as surplus medical supplies to 11 republics and 24 cities.

H.J.Res. 456, the continuing resolution providing foreign aid appropriations for the remainder of FY1992 (P.L. 102-266, signed into law April 1), repealed the Stevenson and Byrd amendment restrictions on provision of export credits and provided the

President with authority to provide additional FY1992 humanitarian and technical assistance to the FSU from existing ESF resources. The Administration decided to allocate \$150 million from ESF.

On Apr. 1, 1992, President Bush outlined a "comprehensive package of assistance" to the FSU. First, he announced U.S. participation in a multilateral G-7 \$24 billion package of support for Russia. The U.S. contribution to that package was estimated at roughly \$4.5 billion in old and new funds -- a commitment of \$1.5 billion toward a \$6 billion ruble stabilization fund; \$1 billion of \$4.5 billion in IMF, World Bank, and EBRD loans, counted as part of the regular U.S. contribution to those organizations; and \$2 billion of an \$11 billion G-7 contribution in bilateral aid, largely composed of CCC credit guarantees, Eximbank loan guarantees, and some humanitarian assistance.

Second, the President proposed legislation that would, in the words of Secretary of State Baker, "unite the executive and legislative branches around a bipartisan program that can mobilize the American people" in support of assistance for the former Soviet Union. The Freedom Support Act of 1992 was submitted to Congress on April 3 and introduced as S. 2532 on April 7.

Finally, the President offered \$1.1 billion in CCC agricultural credit guarantees -- \$600 million for Russia and \$500 million for the other states; the credit offer did not require additional congressional approval. The Administration reiterated its humanitarian and technical assistance request for FY1992 (\$150 million) and FY1993 (\$470 million) that was included in the AID FY1993 congressional budget presentation.

The Freedom Support Act, extensively amended by Congress, was approved by the Senate on July 2 (76-20) and by the House on August 6 (255-164). P.L. 102-511 was signed into law on Oct. 24, 1992. As enacted, S. 2532 authorized \$505.8 million in FY1993 divided into several broad areas: \$410 million in humanitarian and technical assistance; \$70.8 million for various educational exchange programs; and \$25 million for State Department and USIA expenses for the region. In its most controversial provision, the bill authorized a \$12 billion increase in the U.S. quota to the IMF intended for all countries, but expected to benefit the FSU. (For greater detail on the Freedom Support Act, see CRS Report 93-907, *The Former Soviet Union and U.S. Foreign Assistance in 1992: The Role of Congress*).

Funding for these activities were contained in a series of appropriations bills. The Foreign Operations Bill for FY1993 (P.L. 102-391, H.R. 5368) appropriated \$417 million for the FSU -- largely for humanitarian and technical assistance -- and \$12 billion for the increase in the U.S. quota to the IMF. The Defense Appropriations Act, 1993 (P.L. 102-396, H.R. 5504) provided \$400 million more for activities authorized under the Former Soviet Union Demilitarization Act of 1992 to assist the republics in the storage, transportation, dismantling and destruction of nuclear weapons, and \$15 million for humanitarian aid transportation costs. The State Department Appropriations Bill for FY1993 (P.L. 102-395, H.R. 5678) appropriated \$25 million for USIA and State Department to set up new diplomatic posts in the FSU, appropriated \$2 million to establish a Russian Far East Technical Assistance Center at an American University, and funded educational and cultural exchange programs.

On Oct. 29-30, 1992, the United States announced a \$412 million aid package for the FSU at the Tokyo Conference for Assistance to the Newly Independent States, the

third and final follow-on meeting to the January conference held in Washington, D.C. Composed of new aid, the assistance included \$250 million in grant emergency food aid, \$100 million in wheat and corn feed stocks, \$38 million in DOD excess Meals-Ready-to-Eat and bulk processed foods, and \$14 million in emergency medical supplies. This initiative did not require additional congressional approval.

Aid to the Former Soviet Union: Developments in 1993

In its original FY1994 foreign aid request, the new Clinton Administration proposed \$703.8 million for the FSU humanitarian/technical assistance account, an increase of roughly \$287 million from the FY1993 level of \$417 million. It also requested \$400 million from the FY1994 defense budget for nonproliferation activities.

Increasing concerns regarding the economic and political stability of Russia and a consequent chorus in the United States calling for an aggressive U.S. response led the Clinton Administration to give high priority to Russia and the issue of further assistance in its incipient foreign policy pronouncements. On March 5, the President pledged to take new action to provide innovative solutions to Russia's problems, including financial assistance efforts. The Administration also indicated its desire to work with the G-7 nations to formulate a package of assistance more efficacious than the \$24 billion proposal promised in April 1992 but that the Russians and some American analysts assert was never fully delivered (most estimates of actual "disbursements" range from \$11 billion to \$18 billion).

Vancouver Summit Initiative. On April 4, 1993, immediately following his Vancouver summit meeting with Russian President Yeltsin, President Clinton announced a \$1.6 billion package of U.S. assistance to Russia. All of the programs utilized existing FY1993 resources, and none of the funds required new appropriations from Congress: \$924 million of the package -- \$700 million in Food for Progress Program agricultural loans, \$194 million in food grants, and \$30 million in medical and maternal/child health grants -- was assistance additional to that already designated for Russia and the FSU. Roughly \$676 million was derived from FY1993 funds and programs previously expected to go to the FSU, if not for Russia specifically.

While the package may not have been entirely new, aspects of it suggested a shift from the Bush Administration approach. The terms of loans for agricultural commodities were made more concessional, apparently responding to the view that the previously used CCC credit guarantee program was a trade program, not foreign assistance, and inappropriate for a country that was having difficulty repaying its debts. Another policy change was an increase in levels of assistance targeted at privatization efforts, from \$20 million to \$60 million. Many believe that the more quickly and extensively privatization occurs, the more irreversible the new revolution would be. The Clinton Administration also targeted funds at resettling Russian officers to facilitate a withdrawal from the Baltics: \$6 million would be used to build 450 houses for officers returning to Russia and to provide employment training to assist their return to civilian life. The Administration also proclaimed its intention to make its assistance more highly visible to the average Russian citizen than the earlier aid program. The President claimed that 75% of the assistance would be used outside Moscow and the same proportion would be provided to non-governmental bodies. The democracy initiatives announced at the summit were to be directly targeted at the average person. The Administration intended to bring together a range of exchanges

and training programs to encourage person-to-person contacts between Americans and Russians.

The appointment of presidential friend Strobe Talbott as Ambassador at Large for the Newly Independent States was one sign of the Administration's desire to give the aid issue higher priority. At the summit, the President announced further moves in this direction, including appointment of Vice President Al Gore to co-chair a commission on technological cooperation with the Russian Prime Minister; Commerce Secretary Ron Brown to co-chair a business development committee with the Deputy Foreign Minister; and appointment of a full-time ombudsman to facilitate U.S. investment.

The importance of trade, often viewed as a substitute for large-scale assistance, was given some prominence in the summit announcement. The Administration stated its support of Russian membership in the General Agreement on Tariffs and Trade (GATT) and access to the Generalized System of Preferences (granted Sept. 22, 1993). It included in the aid package credit and guarantee agreements that were being negotiated for some months -- an \$82 million Export-Import credit for Caterpillar Inc. machinery to be used on a gas pipeline project; and a \$150 million guarantee from the Overseas Private Investment Corp for an oil project by DuPont Co's Conoco Inc unit. It also promised to try to push to completion by April 14 a \$2 billion Export-Import oil and gas loan (the deal was finally signed on July 6, 1993, and the first payment -- \$245 million -- was approved in March 1994).

Finally, the Administration outlined \$215 million in further proposed uses for the \$800 million nonproliferation fund that was appropriated in the defense budget for FY1992 and FY1993. \$130 million would go for dismantling nuclear delivery vehicles, \$75 million for warhead storage facilities, and \$10 million for nuclear materials accountability and control. There had been some criticism of the Bush Administration for moving slowly on utilizing the fund, although disagreements between Russia and Ukraine on nuclear disarmament were in part responsible for delays. (See CRS Issue Brief 91144, *Nuclear Weapons in the Former Soviet Union*, and CRS Report 93-1057 F *The Nunn-Lugar Cooperative Threat Reduction Program for Soviet Weapons Dismantlement: Background and Implementation*, for further details.)

At Vancouver, President Yeltsin extracted a promise from President Clinton that the United States would review outmoded legal restrictions on trade and other relations that treated Russia "as though we were still a communist country." As a result of that review, the Administration transmitted to Congress on July 27, 1993, the FRIENDSHIP with Russia, Ukraine, and Other New Independent States Act, approved by Congress in November and signed into law on Dec. 17, 1993 (P.L.103-199). Although it eliminated many vestiges of Cold War legislation, it did not affect the two restrictions of greatest concern to Russia, the Jackson-Vanik amendment and COCOM restrictions on technology exports. The latter, however, was dismantled on Mar. 31, 1994.

April 15, 1993 Bilateral U.S. Aid Proposal and Congressional Response. According to the President, the summit package was only the first step of a U.S. effort to assist Russia. The second step was the April 15, \$28.4 billion G-7 package (not counting the \$15 billion public debt rescheduling that occurred on April 2) which rests on IMF and other multilateral organization financial resources (See multilateral aid section below). The third step was a \$1.8 billion U.S. assistance package announced at

the conclusion of the mid-April G-7 meeting of finance and foreign ministers, and approved by Congress on Sept. 30, 1993.

Arriving at a funding mechanism for the proposal, however, required extensive negotiations between the Administration and Congress. Meeting on May 26, the House Foreign Operations Subcommittee approved the \$1.8 billion assistance proposal. Of that amount, \$1.6 billion was included as an FY1993 supplemental attached to the FY1994 foreign operations appropriations bill. Because there was insufficient money left under the foreign assistance budget cap for FY1993, appropriators turned to the defense budget for additional funds. With the agreement of the Chairman of the House Defense Appropriations Subcommittee, \$979 million of the package would be drawn from supplemental FY1993 defense funds; \$630 million would come from a FY1993 foreign assistance supplemental appropriation. The remaining \$200 million would be added to the FY1994 foreign aid appropriations bill. The House passed the measure, H.R. 2295, by a vote of 309-111 on June 17. An effort, sponsored by conservatives and members of the Congressional Black Caucus, to remove the \$1.6 billion FY1993 supplemental increase for the FSU was defeated by a vote of 289-140.

**TABLE 1. Russia and Other FSU Aid:
\$2.5 billion FY1993/1994 Package
(millions of dollars)**

	Request	Enacted (P.L. 103-87)
Private Sector Development	647	894
Privatization & Restructuring	125	125
Trade and Investment	490	485 *
Democratic Initiatives	295	295
Humanitarian Assistance	239	239
Energy and Environment	228	285
Officer Resettlement & Housing	190	190
Non-Russia FSU Special Funding	300**	---**
Total	2,513	2,513

* Includes \$300 million transfer to the Export-Import Bank.

** Non-Russia FSU aid distributed among other sectors in enacted bill.

Following weeks of negotiations over whether to use defense funds as part of the Russian aid package, the Senate Foreign Operations Appropriations Subcommittee met on Sept. 12, 1993, and approved full funding of the President's request. Although the subcommittee followed the same formula used by the House, the Senate panel made two important modifications by earmarking \$300 million specifically for Ukraine and shifting \$300 million of the broad technical and humanitarian aid proposal to the Export-Import Bank for loans and guarantees of U.S. exports to the FSU. The bill further designated specific amounts of the combined FY1993/1994 \$2.5 billion package for selected programs, amounts that were similar, but not exactly the same as those recommended by the President.

Prior to Senate consideration of H.R. 2295, a political crisis erupted in Russia on Sept. 21, 1993, when President Yeltsin dissolved the legislature and called for elections, but was challenged by parliament hard-liners who declared Yeltsin's actions unconstitutional and sought to take power. Nevertheless, congressional supporters of Russian assistance endorsed Yeltsin's decisions and argued that it was even more critical for Congress to move forward with the aid package to demonstrate continuing

U.S. support for economic and political reform in Russia. Two days later, on September 23, the Senate approved H.R. 2295, including the full \$2.5 billion FY1993/1994 aid proposal for the FSU. During debate, however, Senators added a number of conditions, many of which were adopted in modified form in the final bill.

While the political crisis in Moscow continued, Congress finalized action and the President signed H.R. 2295, including the \$2.5 billion FSU aid package, on September 30. Rapid congressional consideration resulted from both Congress' desire to signal support for President Yeltsin and perhaps more importantly, to enact the legislation prior to the end of the fiscal year after which the FY1993 supplemental funds (\$1.6 billion) for Russia would no longer have been available. Finding the necessary money entirely out of FY1994 appropriations would have presented considerable obstacles, given the declining budgets for foreign aid and defense, and the desire by many to maintain domestic spending levels.

As shown in Table 1, Congress generally agreed with the Administration's plan for allocating the \$2.5 billion. One of the most notable changes is the \$300 million transfer to the Export-Import Bank, action taken primarily so that Eximbank loans and guarantees for Russia and the other FSU nations do not come at the expense of financial backing for other countries. Lawmakers also expressed their intent that this not be an aid package exclusively for Russia but provide at least one-third of the total for the other states. (This is consistent with Administration estimates.) The final bill further recommends that Ukraine receive at least \$300 million and Armenia \$18 million. Although Congress approved the package, Members attached conditions, some allowing a presidential waiver, that will affect whether Russia and the other former republics remain eligible for American aid. Among the most significant are

- Russian government must be making progress in implementing comprehensive economic reforms;
- Russian government must not use aid to expropriate or seize ownership or control of assets, investments, or ventures;
- FSU governments must not direct any action in violation of the territorial integrity or national sovereignty of another FSU country (national interest waiver and exemption for humanitarian and refugee programs);
- No aid to enhance the military capability of any FSU country (demilitarization, defense conversion, non-proliferation exemption);
- Russian aid reduced by \$380 million unless President certifies on Apr. 1, 1994, that Russia has not provided assistance to Cuba during past 18 months (national interest waiver); and
- No aid for Russia unless President certifies that (1) Russia and Latvia and Estonia have set a timetable for withdrawal of Russian troops; or (2) Russia has continued to make substantial progress toward withdrawal.

Aid to the Former Soviet Union: Developments in 1994

The Administration FY1995 budget request, issued in February, included \$900 million in humanitarian and economic assistance to the FSU, roughly the same as appropriate in FY1994. It requested \$400 million in Nunn-Lugar demilitarization funds.

The December 1993 parliamentary elections and subsequent resignations of prominent economic reformers from the Yeltsin cabinet have generated a debate among U.S. policymakers regarding the efficacy of U.S. and international assistance to Russia.

Lee Hamilton, the chairman of the House Foreign Affairs Committee, has suggested that he would find it difficult to support further assistance if the Russian central bank continues to support state industries. Noting that reformers never received promised support from the international community, some observers, including economist Jeff Sachs, criticize the IMF for not being more forthcoming with assistance promised by the G-7 in both 1992 and 1993. Of the \$28 billion offered in the G-7 package of April 1993, only an estimated \$5 to \$8 billion has been delivered. The United States is reportedly putting pressure on the IMF to more expeditiously move loans to Russia.

The Ames spy case that emerged in late February produced added pressures on the assistance program for Russia. Several Members of Congress, including Senators DeConcini and Dole, called for a freeze on assistance. Senator McConnell indicated that bipartisan support for the program might dwindle as a result of the incident.

These events may have strengthened support for the view that the United States should target more of its assistance on non-Russian republics rather than rely on Russia as the focus of reform in the region. In response, Ambassador Talbott has indicated a 50-50 split in future resources. On February 14, President Clinton pledged a significant increase in economic assistance to Kazakhstan due to its adherence to economic policy reforms and moves to eliminate nuclear weapons. Assistance is, reportedly, expected to go from \$91 million in FY1993 to \$311 million in FY1994. On March 4, the President promised to double assistance to Ukraine to roughly \$700 million through FY1995. On March 21, DOD Secretary Perry pledged an additional \$100 million to Ukraine in Nunn-Lugar demilitarization assistance.

On February 11, Congress approved the Emergency Supplemental Appropriations for FY1993 (H.R. 3759), providing assistance to earthquake victims in southern California and for other purposes. To help pay for the relief, Congress rescinded previously approved funding, including \$55 million of the \$2.5 billion assistance package for the FSU that had been approved in September 1993.

House debate on the FY1995 foreign aid appropriations bill, H.R. 4426, contained a mixed message on support for assistance to the FSU. The Appropriations Committee had reported a bill fully funding the President's request of \$900 million for the region. On the floor (May 25), an amendment (Callahan) was defeated by a vote of 286-144 that would have cut the appropriation by \$348 million and exclude Russia from the remaining \$552 million except for humanitarian assistance. However, a motion by Representative Callahan to reduce FSU funding by \$24.5 million -- leaving an appropriation of \$875.5 million -- was later agreed to. Further diminishing available funding for the region, the Committee-reported bill allows the Newly Independent States account to be used for Mongolia. Although the bill contains only a line-item appropriation for the region, the Committee report (H.Rept. 103-524) recommends a number of specific funding levels for various programs -- \$20 million for law enforcement training, \$14 million for the Peace Corps, \$50 million for agricultural commodities for children and women, \$5 million for postdoctoral exchanges in the social sciences and humanities, and \$20 million for family planning.

On June 16, the Senate Appropriations Committee reported its version of H.R. 4426, earmarking \$839 million for the FSU. The Committee recommendation, \$61 million less than the Administration request, appears to reflect congressional criticisms made public by the *Washington Post* on June 12. The Post article highlighted a memo

written to the Administration by Representatives Richard Gephardt and Robert Michel that called the Russia aid program "simply inadequate in its strategy, its intensity and its implementation." The Senate Committee report (S.Rept. 103-287) echoes several of these criticisms. Unlike the House bill, the Senate Committee specifically earmarks funding levels for Ukraine (\$150 million), Armenia (\$75 million), and Georgia (\$50 million). It also requires that \$15 million be used for family planning (of which \$6 million is for Russia, \$3 million for Ukraine, Moldova, and Belarus, and \$6 million is for Central Asia).

During floor debate, the Senate amended the foreign aid appropriations bill with new earmarks and other additional requirements. The Senate bill earmarked \$15 million to be used to support and expand the hospital partnership program, \$50 million for programs that match U.S. private sector resources with Federal funds, \$5 million to establish an enterprise fund for the Transcaucasus region, \$15 million for the International Criminal Investigative Training Assistance Program (ICITAP) to conduct police development and training programs, and \$15 million for the FBI to combat organized crime. By voice vote, the Senate approved an amendment that would end most assistance to Russia unless the President certifies that it is complying with the 1972 Biological Weapons Convention and is disclosing the existence of its binary chemical weapons program. The Senate also approved (89-8) an amendment that would end most aid to Russia if its troops remain in the Baltics after Aug. 31, 1994, or the status of those troops has not been otherwise resolved by mutual agreement of the countries involved. The original Senate Committee bill, like the House bill, had set a deadline of Dec. 31, 1994. The Senate approved H.R. 4426 on July 15 by a vote of 84-9.

The conference report on H.R. 4426 was approved by the House on August 4 (341-85) and by the Senate on August 10 (88-12). It now goes to the President to be signed into law. The conference report provides \$850 million in bilateral economic assistance to the FSU. It replaces many of the Senate earmarks with recommendations for spending -- \$15 million for family planning; \$150 million for Ukraine, of which \$25 million should be for land privatization and small and medium business; \$75 million for Armenia; \$50 million for Georgia; and \$50 million for public/private partnership matching programs. The bill requires that up to \$30 million be used for police training and exchanges for East Europe and the FSU. It recommends that a Transcaucasus Fund be established. It requires a report from AID on steps being taken to include individuals and organizations with language and regional expertise in the program. The conference report makes no funds available unless the President certifies that Russia and Latvia and Estonia have established a timetable for withdrawal of Russian forces, although it provides for a Presidential waiver. The explanatory statement recommends that at least half of appropriated funds should be used in republics other than Russia.

Issues for Congress in 1994

To What Extent Should the U.S. Help the Former Soviet Union?

Although a broad consensus supporting provision of some assistance, if only of a humanitarian nature, predates the August 1991 coup, a continuing issue for Members of Congress is the amount of aid that should be provided.

The precarious state of the new economies -- Russia has a total debt burden of \$80 to \$85 billion and suffered an inflation rate of roughly 1,000% last year -- threatens both their political stability and efforts to make a transition to a market economy. Many in the foreign policy community and in Congress argue that the FSU republics require more U.S. as well as other Western aid if they are going to succeed in establishing democracies and free market economies. The crux of their view is that the economic and political stability of the region is of vital importance to U.S. interests.

Some, Senators Nunn and Lugar most prominently, fearing lack of control over nuclear and other weapons and the proliferation of those weapons and their technology globally, have argued successfully that the safeguarding of those weapons is a genuine U.S. defense priority and proper national security expenditure. As a result, \$988 million in defense budget funds has been allocated (a further \$212 million of FY1992 funds was lost when not obligated by end of FY1993) to help the republics with defense conversion and with safeguarding and dismantling weapons (an additional \$400 million has been requested for FY1995), and more than \$300 million of DOD funds has been allocated to provide humanitarian food and medical assistance. Arguing that it would promote U.S. security interests, Congress supported the use of \$979 million in FY1993 defense funds to be used to assist the FSU in more traditional foreign aid activities under P.L. 103-87, the FY1994 Foreign Operations Appropriations approved by lawmakers on Sept. 30, 1993.

Those expressing caution or opposition regarding outlays of assistance argue that anything more than humanitarian assistance would be money wasted until substantial economic reforms are implemented. While the political success of Russian nationalist Vladimir Zhirinovsky has apparently decimated the argument that, with the Cold War over, U.S. interests in the region are less vital, opponents of aid might use this turn of events to argue the need for greater caution in future offers of assistance. Critics of further assistance also raise reservations regarding provision of aid when domestic needs are great and foreign aid in general is unpopular with the U.S. public. In considering the Freedom Support Act, many in Congress linked congressional support for the aid package with Administration support of an extension of unemployment benefits and an accelerated jobs program for Americans. Proposed amendments to the foreign assistance authorization and appropriations bills that would cut funding to the FSU raised most of these arguments again in 1993. Efforts to cut funding were defeated in the House by almost identically large margins in 1993 and 1994. In 1994, however, a motion to cut FY1995 funding by \$24.5 million in order to increase the appropriation for international narcotics activities was approved by voice vote.

This debate is affected by uncertainties over developments in the former Soviet Union, especially who is in charge and what entities the United States should deal with, as well as questions about the future direction of their policies. Those parts of the FSU that pursue a course of political democratization, marketization of the economy, and international dialogue, are likely to be included in future congressional action on aid and trade. If there are significant moves away from reform, assistance to those parts of the FSU is unlikely to be considered.

Both the Freedom Support Act and, as noted above, the FY1994 Foreign Operations Appropriations (P.L.103-87) contain general and specific conditions that the states of the FSU are expected to follow in order to receive assistance (See CRS Report 94-448, *The Former Soviet Union: Conditions on Aid in the FY94 Foreign Assistance*

Appropriations Act). Conditions left to the broad discretion of the President include whether these countries are undertaking economic and political reform, whether they are following international standards of human rights, whether they are adhering to international treaties, and whether they are denying support to terrorists. Other conditions established by Congress are more firm. As in FY1993, the FY1994 appropriations bill required the President to make a determination on whether Russia has made substantial progress in withdrawing its troops from the Baltics. Russia has announced its intention to do so by the end of August 1994. The FY1995 foreign aid appropriations bill would prohibit assistance to Russia if agreement on a timetable for withdrawal has not been achieved or is not being carried out.

What Kind of Assistance Should the U.S. Provide?

With passage of the Freedom Support Act in 1992 authorizing technical assistance and educational exchange programs for the former Soviet Union, the United States now provides a wide range of emergency humanitarian relief, development, and trade and investment programs to the region. One issue that is likely to be a continuing consideration by Congress is the appropriate composition of the aid program, both among and within different types of assistance.

Until the Vancouver summit, almost three-fourths of promised and delivered U.S. assistance had taken the form of credit guarantees under USDA programs. Many critics argued that credit was an inappropriate form of aid for countries straining unsuccessfully to keep up with their debt payments. In fact, further agricultural credit guarantees were suspended for Russia in November 1992 when it defaulted on its repayments. The proposed alternatives -- rescheduling the agricultural guarantee debt accumulated by the FSU states when the Soviet Union still existed and providing long-term concessional loans -- have now been met to some extent. On Apr. 2, 1993, the Paris Club reached agreement on rescheduling of debt owed by the FSU and Russia. It is expected that repayment of \$1.1 billion owed against USDA-guaranteed credits extended to the FSU in 1991 will be deferred to the 1995-2000 period. After Moscow failed to comply with a payment requirement due on June 30, U.S. and Russian officials worked out another agreement -- announced on September 30 -- that called on Russia to pay \$420 million by the end of 1993. Russia is now current on its repayments.

As noted above, food aid offered at Vancouver was in the form of concessional loans and grants. The President's \$2.5 billion aid initiative approved by Congress on September 30 is largely in the form of grants. Whether the dominant proportion of U.S. aid now shifts to grants and concessional loans remains to be seen.

Another possible focus of congressional attention is the make-up of specific projects and programs intended to assist the FSU. The Freedom Support Act proposes, and AID and other executive agencies are currently implementing, technical assistance and related programs in sectors ranging from energy to agriculture to housing. Some observers have suggested that this is an attempt to do a little of everything, thereby stretching limited resources too thinly. Each type of aid has its proponents. Some argue that a larger proportion of U.S. grant assistance should be concentrated in agriculture-related sectors so that dependence on foreign exchange draining imports could be ended. Some would give priority to the oil industry in order to build foreign exchange. Still others make the case for concentration of U.S. assistance on trade and investment programs to help both U.S. business and the private sector in the new

republics. Economist Jeffrey Sachs and others have argued for the creation of a multibillion dollar "social safety net" for unemployed and retired Russians that might prevent social unrest during the transition to a market economy. While the Administration's Vancouver and \$2.5 billion FY1993/1994 aid packages maintain a U.S. effort in a wide range of sectors, there is a strong emphasis on private sector rather than Government, outlying areas rather than Moscow, oil and gas production, and people-to-people exchanges.

Is U.S. Assistance to the Former Soviet Union Effective?

Many questions regarding the effectiveness of U.S. assistance efforts have been raised during the past year. Most recently, House Leaders Richard Gephardt and Robert Michel suggested that the program was poorly coordinated, not sufficiently visible to the Russian people, not well targeted, not addressing issues of crime and taxation, nor adequately responding to the needs of small entrepreneurs. The Senate Foreign Operations Committee report on H.R. 4426 criticizes the program for its slow implementation and lack of focus.

Increasingly, as U.S. aid programs move from funding to implementation, members of Congress and others are asking if these programs are having the desired impact. For most programs, it is too early to tell. Many technical assistance programs have only just begun to be implemented during the past year.

Although foreign aid accountability requirements and the difficulty in identifying appropriate organizations and individuals to assist are factors in the speed of implementing programs, concern remains that aid implementation has been too slow. The Clinton Administration, which intended its aid initiatives to be implemented rapidly to show support for President Yeltsin's reforms and smooth the transition to free markets for vulnerable groups, claimed (as of September 30) that 97% of the Vancouver aid had been obligated and is already in evidence on the ground. However, as of June 1994, only \$635 million of the \$2.1 billion in FY1993 supplemental and FY1994 funding available to AID had been obligated.

Some observers perceived a lack of coordination and monitoring of aid programs within the Bush Administration that, they felt, damaged the overall effectiveness of the program. In 1993, President Clinton appointed Strobe Talbott Ambassador-at-Large for the Newly Independent States (when he became Deputy Secretary of State in 1994, James Collins replaced him in this position); the President has also given the aid programs a high level of personal attention. Despite these changes, many continue to believe that the activities of AID, State, Treasury, Commerce, Agriculture, and the many other departments and agencies involved to some extent in providing assistance to the region are not well coordinated. Under pressure from Congress, the State Department is looking for a new aid coordinator to replace Thomas W. Simons.

Multilateral and Bilateral Programs of Other Countries

Because its own resources are insufficient, the response of the United States to the former republics' requirements for assistance will depend in part on the extent to which other countries provide aid. Accordingly, the issue of assistance has been treated largely as an international concern to be dealt with both bilaterally and multilaterally.

Multilateral Aid

The United States has attempted to coordinate aid policy through both the vehicle of the G-7 and through the larger international forum of a Coordinating Conference on Assistance to the New Independent States. On January 22-23, 1992, the United States convened a conference of the foreign ministers of 47 potential donor governments and representatives of 7 international organizations to discuss coordination of assistance activities for the FSU. It established working groups on food, medicine, energy, shelter, and technical assistance. In the final coordinating conference that met in Tokyo on Oct. 29-30, 1992, the 70 donor countries and 19 international organizations that attended expressed their concern over concentrating strictly on short-term, emergency aid. To stress medium- and long-term assistance, the World Bank was appointed to lead donor aid coordination in the future. The Bank has set up Country Consultative Groups (CCGs) for each of the new republics to improve the overall efficiency of longer-term donor assistance. On June 3, 1994, for example, donors and agencies at the Kyrgyzstan Consultative Group meeting pledged \$550 million and provided guidance on its use.

On Apr. 1, 1992, the G-7 announced a \$24 billion package of assistance for Russia to be provided during 1992. The proposed U.S. contribution of \$4.5 billion represented roughly one-fifth of the total G-7 effort. The March 1993 parliamentary challenge to President Yeltsin precipitated a G-7 effort to demonstrate support for Russian democracy prior to the Tokyo summit planned for July. G-7 "sherpas" met in March and finance and foreign ministers met on April 14-15 to come up with a package of assistance that might have an impact on the April 25 referendum on Yeltsin's leadership. The result was a \$43.4 billion assistance plan. This included \$14.2 billion in currency stabilization support efforts, utilizing the \$6 billion stabilization fund approved by the G-7 in 1992, a \$3 billion IMF Systemic Transformation Facility, a \$4.1 billion IMF stand-by loan, and \$1.1 billion in World Bank import assistance. A further \$14.2 billion would be drawn from World Bank, EBRD, and bilateral export credits and guarantees, for import assistance. The package also included the already announced (April 2) \$15 billion Paris Club public debt rescheduling that allowed Russia to repay debts due in 1992 and 1993 over the next 10 years.

At the July 1993 Tokyo summit, the G-7 established a \$3 billion Special Privatization and Restructuring Program that is expected to distribute funds over an 18-month period. It will be made up of \$500 million in bilateral grants, to be used largely for technical assistance to newly privatized companies; \$1 billion in bilateral export credits and \$1 billion in World Bank and EBRD loans to be used by Russian companies to import Western goods; and \$500 million in World Bank loans to be used by local governments to help them make up for health, education, and other services previously supplied to employees by state-owned companies. The Tokyo summit also adopted a U.S. proposal to set up a permanent mission in Moscow specifically to better monitor its aid. The Support Implementation Group is chaired by an American, and the vice-chair is a West German.

Further financial assistance for Russia was not discussed at the July 1994 Naples summit. Instead, Ukraine was a topic of concern. The G-7 offered Ukraine \$4 billion in international financing if it acted to undertake genuine reforms. It also approved a \$200 million plan to close the Chernobyl nuclear plant; total costs are expected to reach \$1.5 billion.

The bulk of G-7 aid proposals, past and present, rest on assistance provided, not bilaterally, but multilaterally by the IMF, the World Bank, and the European Bank for Reconstruction and Development (EBRD). However, until recently, their participation in the assistance program has been limited due to Russia's failure to meet macro-policy reform conditions. Pending appropriate policy reforms, the IMF, World Bank, and EBRD were expected to lend Russia as much as \$4.5 billion during calendar year 1992 (not including the \$6 billion ruble stabilization fund that has not yet been implemented). However, only about \$1.5 billion was offered.

In 1993, members of the G-7 encouraged the multilaterals to alter their standard approach and to ease up on prior conditionality and provide assistance earlier as a way of encouraging later reform. Following the G-7 Apr. 15, 1993 aid package announcement, the IMF opened a new loan window for this purpose -- the Systemic Transformation Facility (STF). Despite pressure on the IMF from the United States and other donors, in early June 1993 the IMF held up approval of a \$1.5 billion loan to Russia, intended to be the first under the STF, pending fulfillment of specific economic policy reform conditions. The loan was finally approved on July 1, 1993. On June 17, 1993, the World Bank approved its largest project loan ever, \$610 million to assist Russia in rebuilding its oil industry. It is expected to approve more than \$1.5 billion in additional loans during 1994.

Following the December 1993 elections, the U.S. argued forcefully for an easing of credit terms by the IMF and other international lending institutions while at the same time calling for continued reform. A meeting of G-7 finance ministers on February 26 stressed the need for aid and debt restructuring to follow reform. On April 20, the IMF finally approved a new IMF loan to Russia of \$1.5 billion. (For details on aid provided by the IMF, see CRS Issue Brief 92128, *Russian Economic Reform and the IMF: Mission Possible?*)

Bilateral Aid

According to the General Accounting Office, only 44% of the roughly \$90 billion in worldwide commitments of assistance to the Soviet Union and its successor states up to the end of 1992 had been disbursed. One reason may be that more than two-thirds of this assistance has taken the form of export credits and credit guarantees, which many believe Russia and the other new states are reluctant to borrow. The proportion of assistance that is grants versus loans has become an issue amongst international donors with the United States pressing its allies in the G-7 to offer more grant assistance. Its original proposal for the privatization fund adopted by the G-7 at Tokyo included \$2 billion in bilateral grants. Opposition by other G-7 countries lowered this figure to \$500 million, of which Japan will provide at least \$90 million and Germany \$80 million.

Germany has committed the largest amount of assistance to the FSU -- according to State Department figures, roughly two-thirds of G-7 and European Community (EC) commitments made between September 1990 and the end of 1992. Expenditures and planned commitments by Germany since 1989 total more than \$54 billion. A part of this amount is free grants and direct subsidies with a large share relating to the transition agreement on the withdrawal of Soviet troops (including building housing for departing Soviet soldiers) from the territory of the former German Democratic Republic (GDR); the largest part is credits and direct grants; and the rest relate to

ruble balance transfers relating to claims of the former GDR for export surpluses to the Soviet Union. Along with the United States, German Prime Minister Helmut Kohl has taken a lead role in appealing to other members of the G-7 for increases in aid to the FSU. However, in early August 1993, the German government temporarily halted export credit guarantees for Russia under its "Hermes" program because of the poor Russian debt repayment record. In 1992, Germany was forced to pay roughly \$562 million to cover defaults from former Soviet states. Its deficit in 1993 was a reported \$2.6 billion. Credit guarantees to Russia are limited in 1994 to roughly \$2 billion.

Although Japan had been expected to be a major donor, its contributions have been restrained by the unresolved dispute with Russia over ownership of the southern Kuril Islands. Up to the end of 1992, Japan had pledged roughly \$2.6 billion in loan assistance and \$150 million in grant humanitarian aid. The aid has been largely for the Russian Far East, although Japan has urged other donors to allow the Central Asian Republics (CAR) -- Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan and Kazakhstan -- to be classified as so-called developing countries, thus allowing them to receive loans at highly concessionary rates. This reflects apparent growing Japanese interest in strengthening relations between itself and the CAR. Concurrent with its hosting of the G-7 meeting on Russian aid in April 1993, Japan bowed to heavy pressure from the United States and other G-7 nations and pledged \$1.8 billion in bilateral aid for Russia, mostly in the form of credits and guarantees. Unlike previous years, it did not push its demands for return of the Kuril Islands at the July G-7 summit held in Tokyo.

LEGISLATION

H.R. 4426 (Obey)

Foreign Operations, Export Financing, and Related Programs Appropriations, 1995. Reported by House Appropriations Committee May 23 (H.Rept. 103-524). Passed House May 25 (337-87). Reported by Senate Appropriations Committee June 16 (S.Rept. 103-287). Passed Senate (84-9) July 15. Conference report passed by House August 4 (341-85) and by Senate August 10 (88-12). Sent to President.

**TABLE 2. U.S. Bilateral Assistance and Credits for
the Republics of the Former Soviet Union**
(in millions of U.S. dollars)

	FY91	FY92	FY93	FY94	FY95	Total
Grant Assistance						
Humanitarian Assistance						
<i>Medical</i>						
USAID Disaster Assistance	5	12	--	--	--	17
DOD Excess Medical Donations	--	100	106	--	--	206
<i>Food Assistance</i>						
USDA Food Aid (includes Title I)	--	293	903	251	--	1,447
DOD Excess Stock Donations	--	62	42	--	--	104
<i>Transportation</i>						
DOD Transportation Funds	--	100	46	--	--	146
Subtotal	5	567	1,097	251	--	1,920
Technical Assistance						
NIS Assistance Account	--	--	417	2,158 ^a	850	3,425
Economic Support Funds	5	230	--	--	--	235
USAID Development Assistance	--	5	5	--	--	10
P.L. 480, Farmer-to-Farmer	--	10	10	10	--	30
Other USG Technical Assistance	--	32	69	63	--	164
Subtotal	5	277	501	2,231	850	3,864
DOD Nonprolif./Disarmament Fund	--	188 ^b	400	400	--	988
Total Grants	10	1,032	1,998	2,882	850	6,772
Credit Programs (Face Value)						
USDA CCC Export Credit Guarantees	1,912	2,567	518	40	--	5,037
USDA Food For Progress Credits	--	--	611	--	--	611
Eximbank Loans and Guarantees	--	119	436	1,170 ^c	--	1,725
OPIC Financing and Insurance	--	126	394	2,500 ^c	--	3,020
Total Credits (Face Value)	1,912	2,812	1,959	3,710	--	10,393
Total Grants & Credits	1,922	3,844	3,957	6,592	850	17,165

Source: Department of State and CRS calculations.

a. Includes \$1,609 billion FY1993 supplemental approved Sept. 1993. H.R. 3759 rescinded \$55 million of the FY1994 and FY1993 supplemental appropriations for the FSU.

b. Original appropriation was \$400 million. \$212 million was "lost" due to failure to obligate funds by end of FY1993.

c. Current Eximbank and OPIC estimates of year-end face value coverage of guarantees and insurance. Eximbank figure includes FY1994 \$300 million subsidy appropriation available for yet-to-be determined amount of Eximbank loans and guarantees in the FSU.